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“The Future Effects of the U.S. Sugar Program”

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The Effects of U.S. Sugar Policy

- Economy: Jobs; Economic activity; Efficiency
- Taxpayers: Revenue raiser while other program costs are soaring
- Consumers: Low, stable prices; But no passthrough when producer prices fall
- Users: High-quality, just-in-time supplies
- Producers: Facing challenges:
  - Domestic oversupply;
  - Large import requirements;
  - Import-quota circumvention;
  - Second-tier Mexican sugar

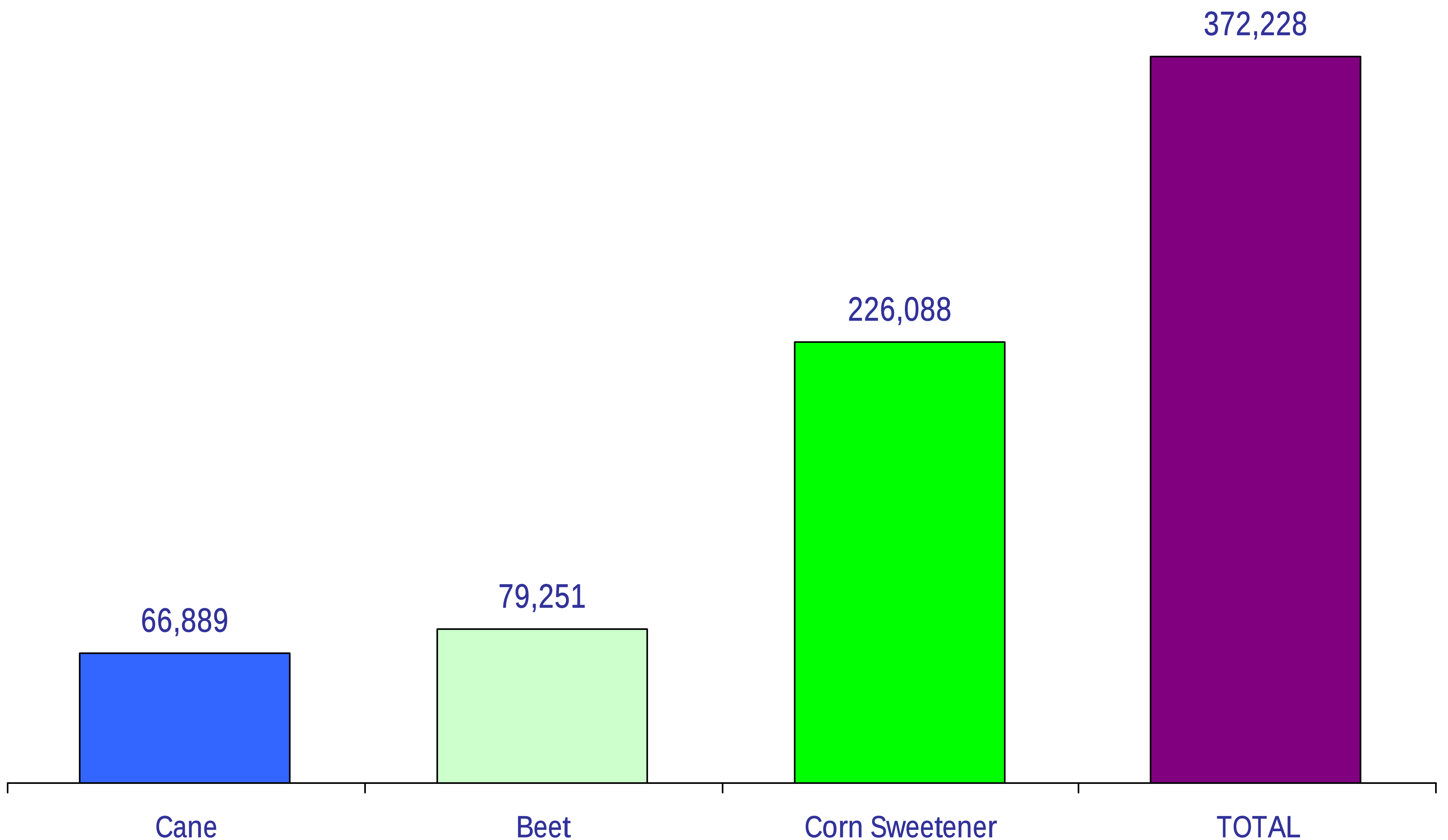
The Effects of U.S. Sugar Policy: Economy

- Large, important industry; critical in many rural areas
  - 372,000 American jobs, direct and indirect, sugar and corn sweetener production, in 42 states
  - $21.15 billion in annual economic activity
- Efficient by world standards
  - American sugar producers 28th lowest cost among 102 producing nations, most of them developing countries
  - America corn sweetener producers lowest cost in world

The Effects of U.S. Sugar Policy: Economy

- World sugar market distorted by global subsidies
  - So-called world price just a fraction of actual world average cost of producing sugar
  - U.S. sugar policy needed until foreign subsidies, distortions eliminated
- U.S. sugar producers endorse global free trade in sugar
  - Meanwhile, one of the world's three largest sugar importers, duty-free; full compliance with all WTO, NAFTA rules

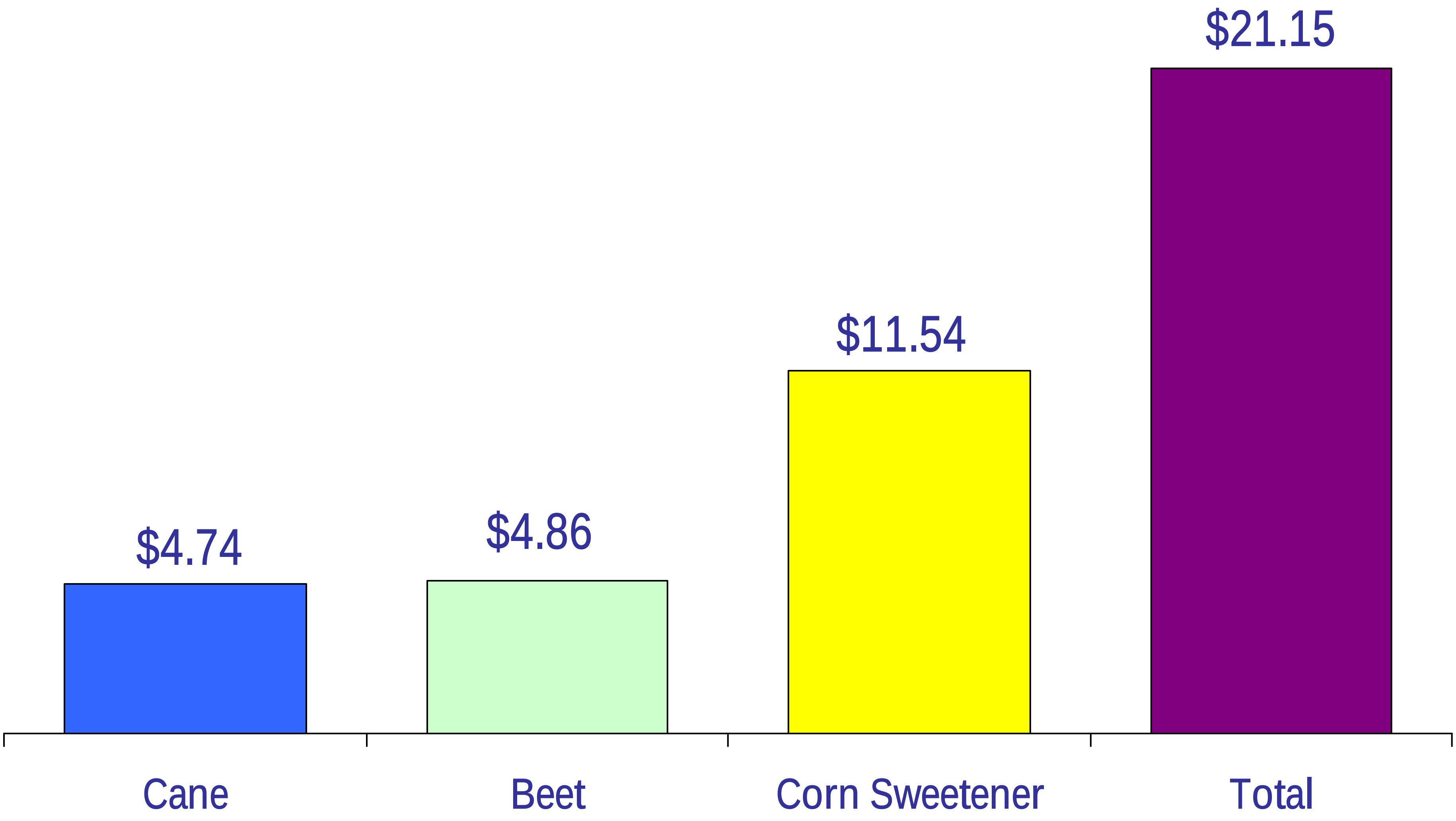
U.S. Jobs Generated by the U.S. Sugar and Corn Sweetener Industry, 2000*



* "The Importance of the Sugar and Corn Sweetener Industry to the U.S. Economy," LMC International Ltd., Oxford England,

Impact of U.S. Sugar and Corn Sweetener Industry on U.S. Economy, 2000*

-Billion dollars-



* "The Importance of the Sugar and Corn Sweetener Industry to the U.S. Economy," LMC International, Oxford, England, August 2001. Direct and indirect impact.

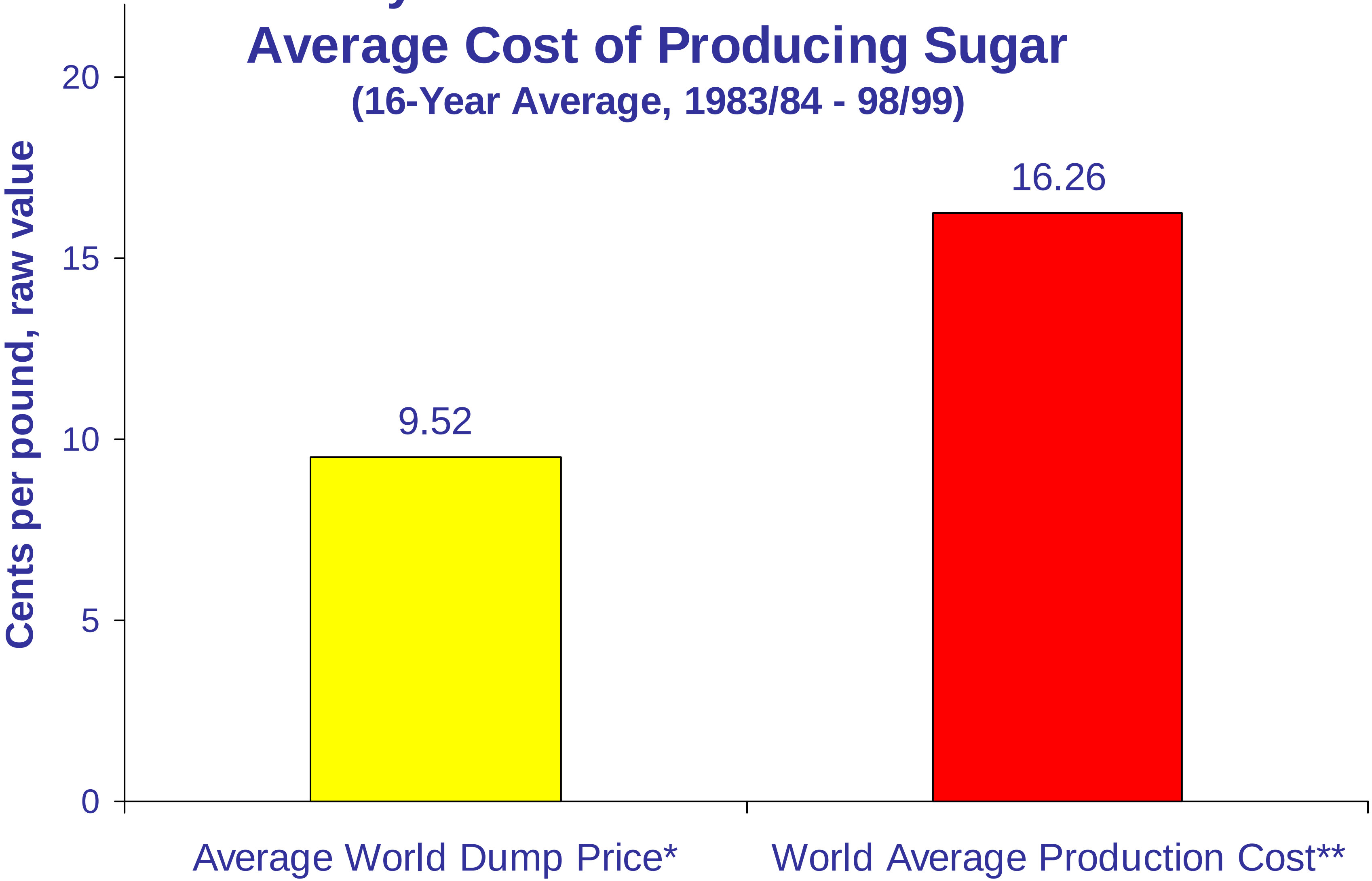
U.S. Cost of Production Rank Among World Sweetener Producers, 1994/95 – 98/99

	U.S. Rank	Number of Producing Countries/Regions
Beet Sugar	2	40
Cane Sugar	26	63
All Sugar	**28**	**102**
Corn Sweeteners	1	19
All Sweeteners	**21**	**112**

Source: "A Worldwide Survey of Sugar and HFCS Field, Factory and Freight Production Costs: The 2000 Report,"

World Sugar Dump Market Price: Barely More Than Half the World Average Cost of Producing Sugar

(16-Year Average, 1983/84 - 98/99)



*New York contract #11, f.o.b. Caribbean ports. Source: USDA.

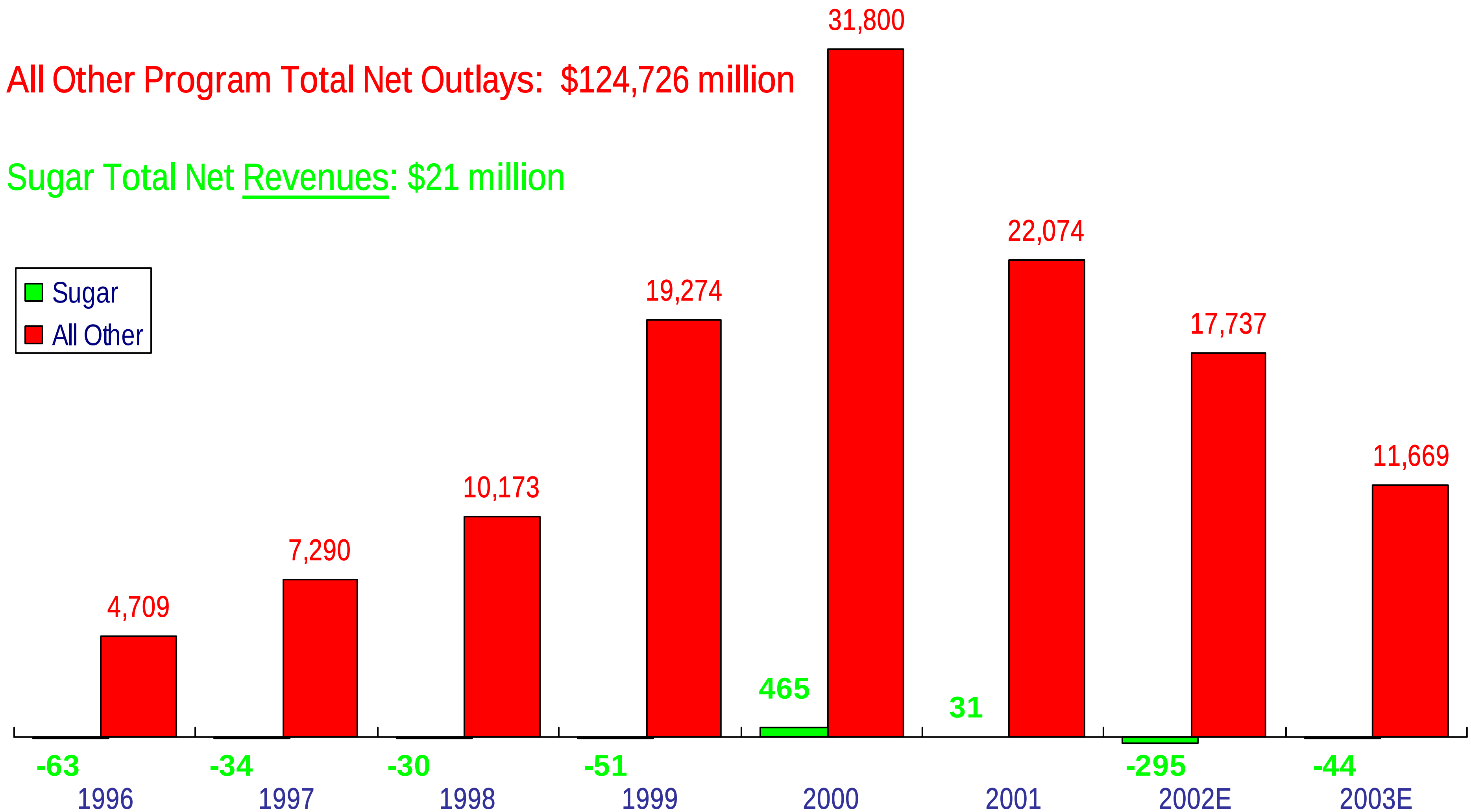
**Beet and cane sugar weighted average, raw value. Source: "The LMC Worldwide Survey of Sugar and HFCS Production Costs: The 2000 Report," LMC International, Ltd., Oxford, England, December 2000.

The Effects of U.S. Sugar Policy:Taxpayers

- Net revenues of $21 million for U.S. sugar policy during 1996-2003; other program outlays total $125 billion
  - 1996-99: Revenues from sugar marketing assessment tax
  - 2000-01: Value of sugar forfeited to, or purchased by government, plus storage costs
  - 2002-03: Revenues to government from sale of sugar onto market at a profit
- 2002 Farm Bill: Return to no-cost program

Government Net Outlays for Sugar and All Other Commodity Programs, 1996-2003

- Million dollars -



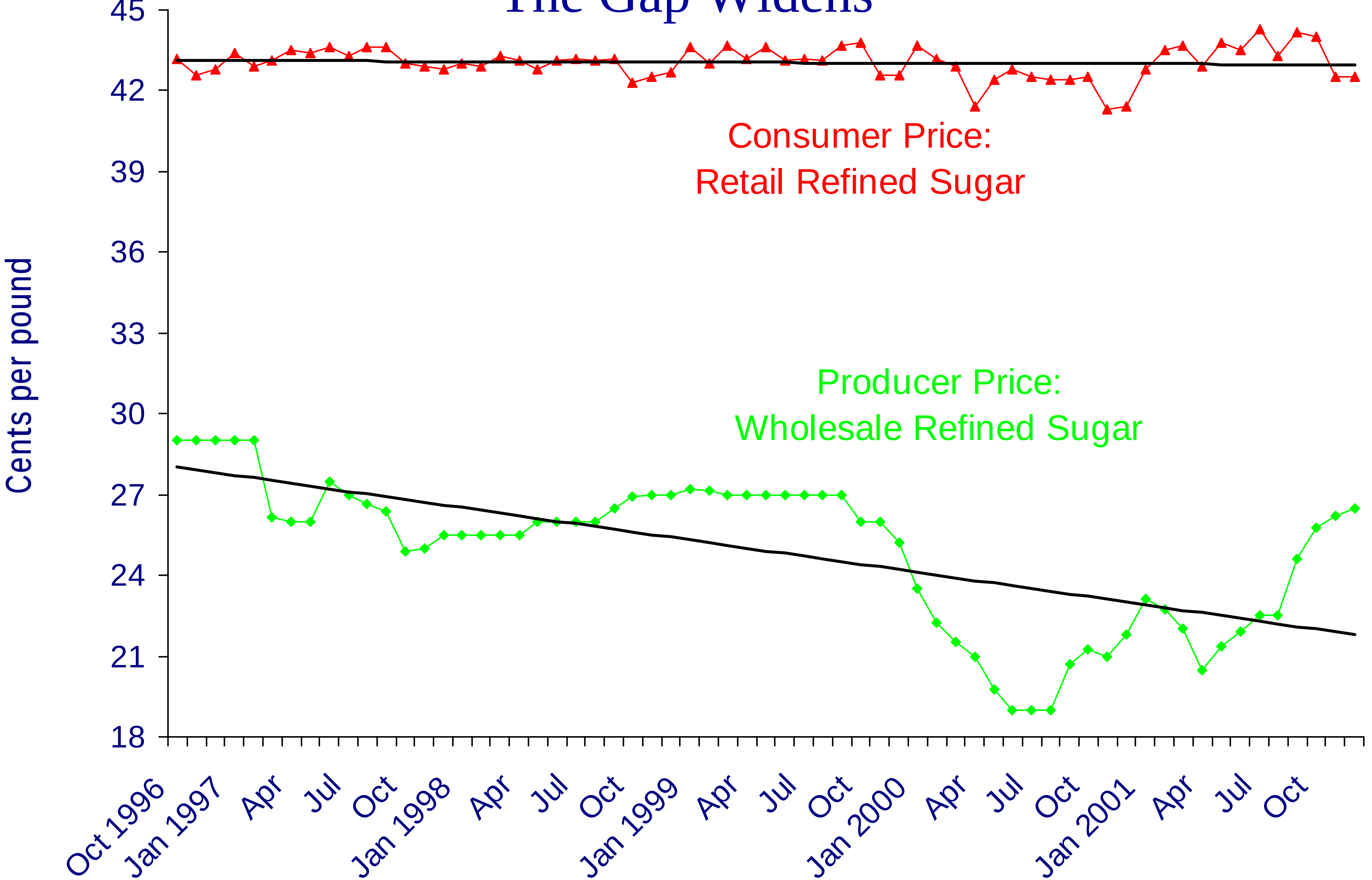
Data source: USDA/FSA, Commodity Credit Corporation net outlays for commodity programs, February 4, 2002; Fiscal 2002 and 2003 estimated. Sugar: 1996-99 -- revenues from sugar marketing as tax; 2000-01 -- value of sugar forfeited to, or purchased by, government, plus storage costs; 2002-03 -- revenues from sale of CCC sugar onto market at a profit.

The Effects of U.S. Sugar Policy: Consumers

- U.S. retail refined sugar price:
  - Essentially unchanged since early 1990's
  - 20% below average of other developed countries
  - About most affordable in the world: Minutes of work to buy one pound third lowest
  - Could be even lower:
    - Retailers not passing lower wholesale producer prices along to consumers
    - Gap between wholesale and retail is widening:

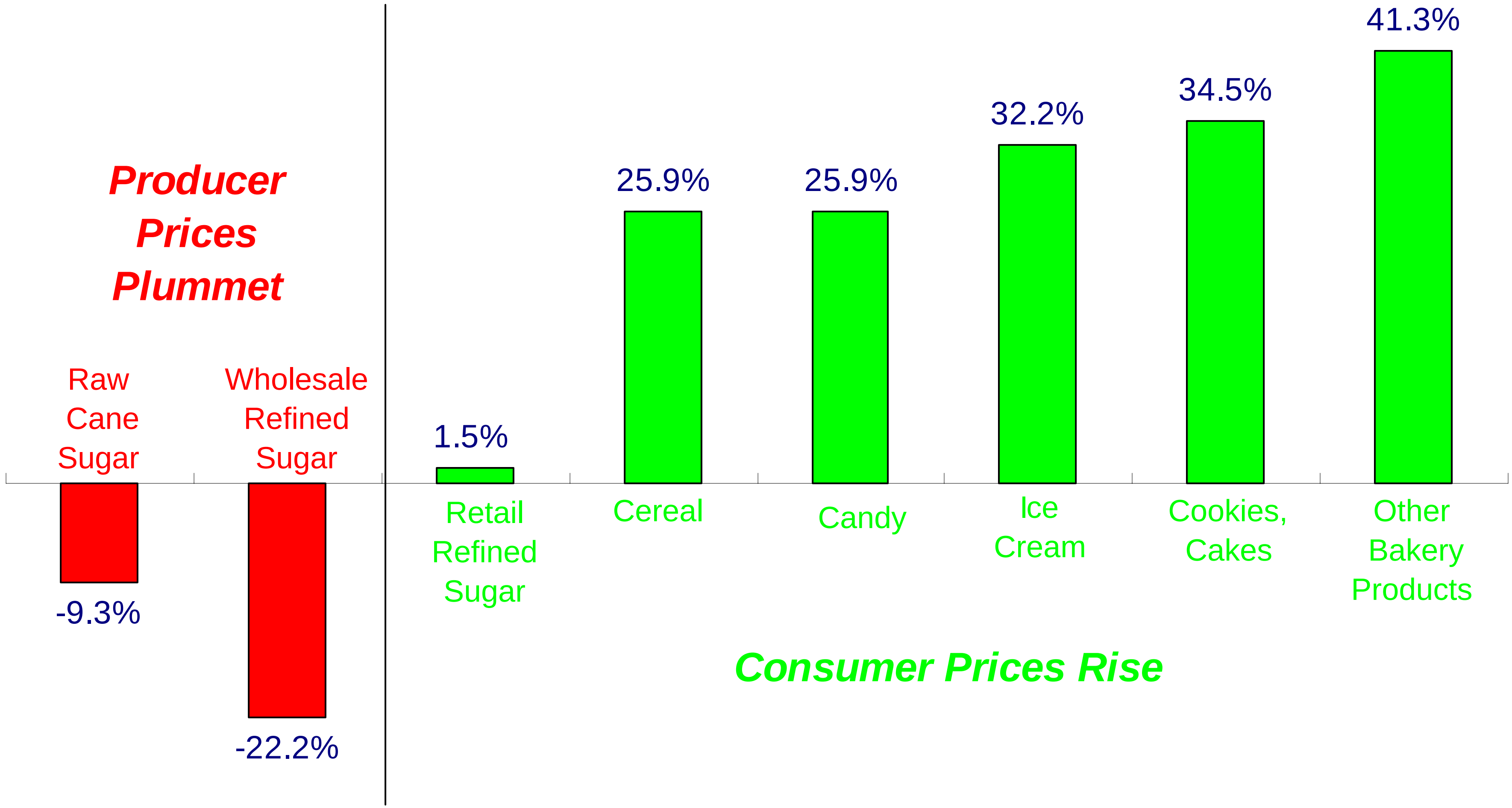
      15 cents/lb in 1996; 20 cents/lb in 2001

U.S. Producer and Consumer Refined Sugar Prices: The Gap Widens



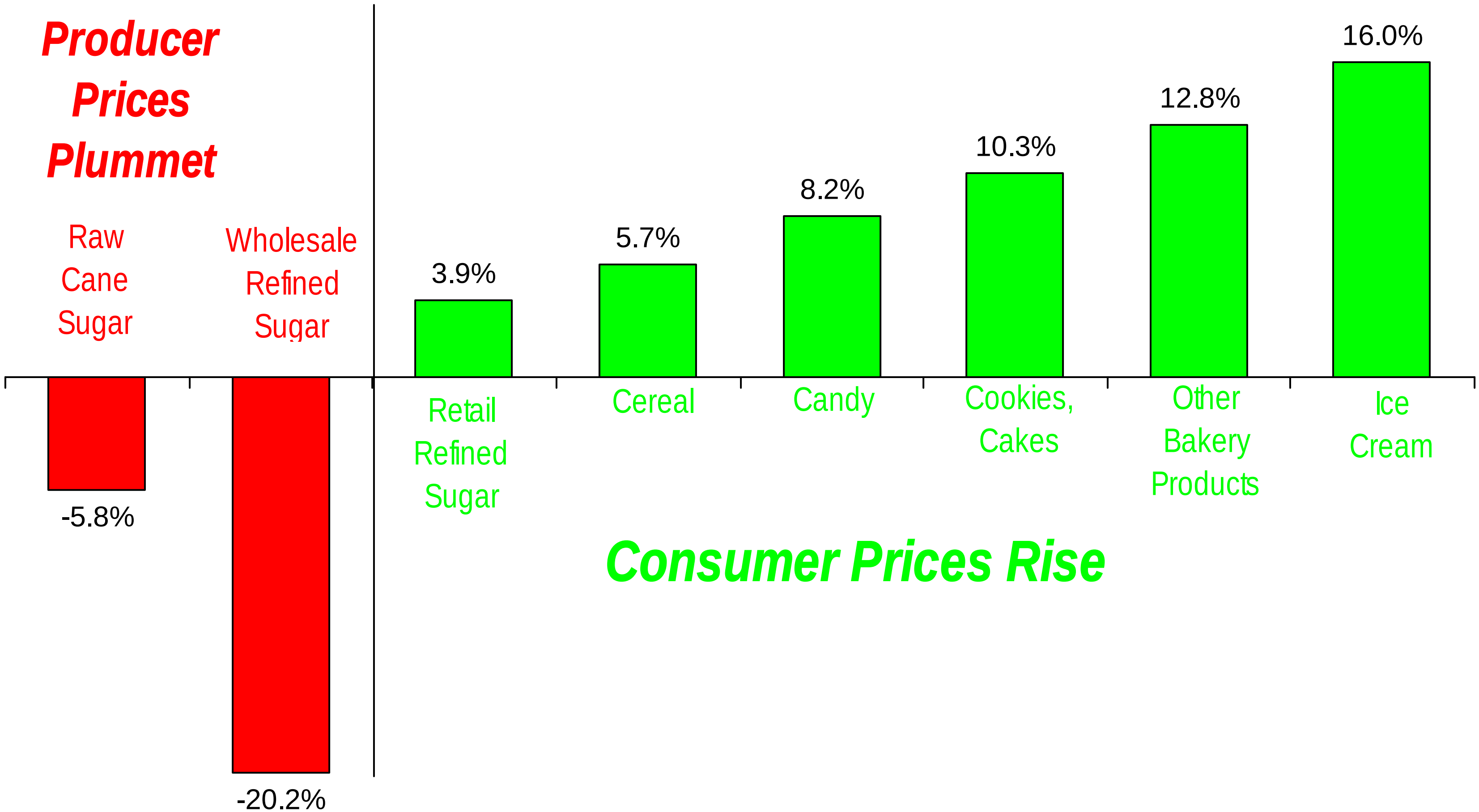
Source: USDA. Wholesale refined beet sugar, Midwest markets; U.S. retail refined sugar . Monthly average prices October 1996 - December 2001. Linear trend lines.

From 1990 to 2001: Producer Prices for Sugar Plummet, Consumer Prices for Sugar & Products Rise*



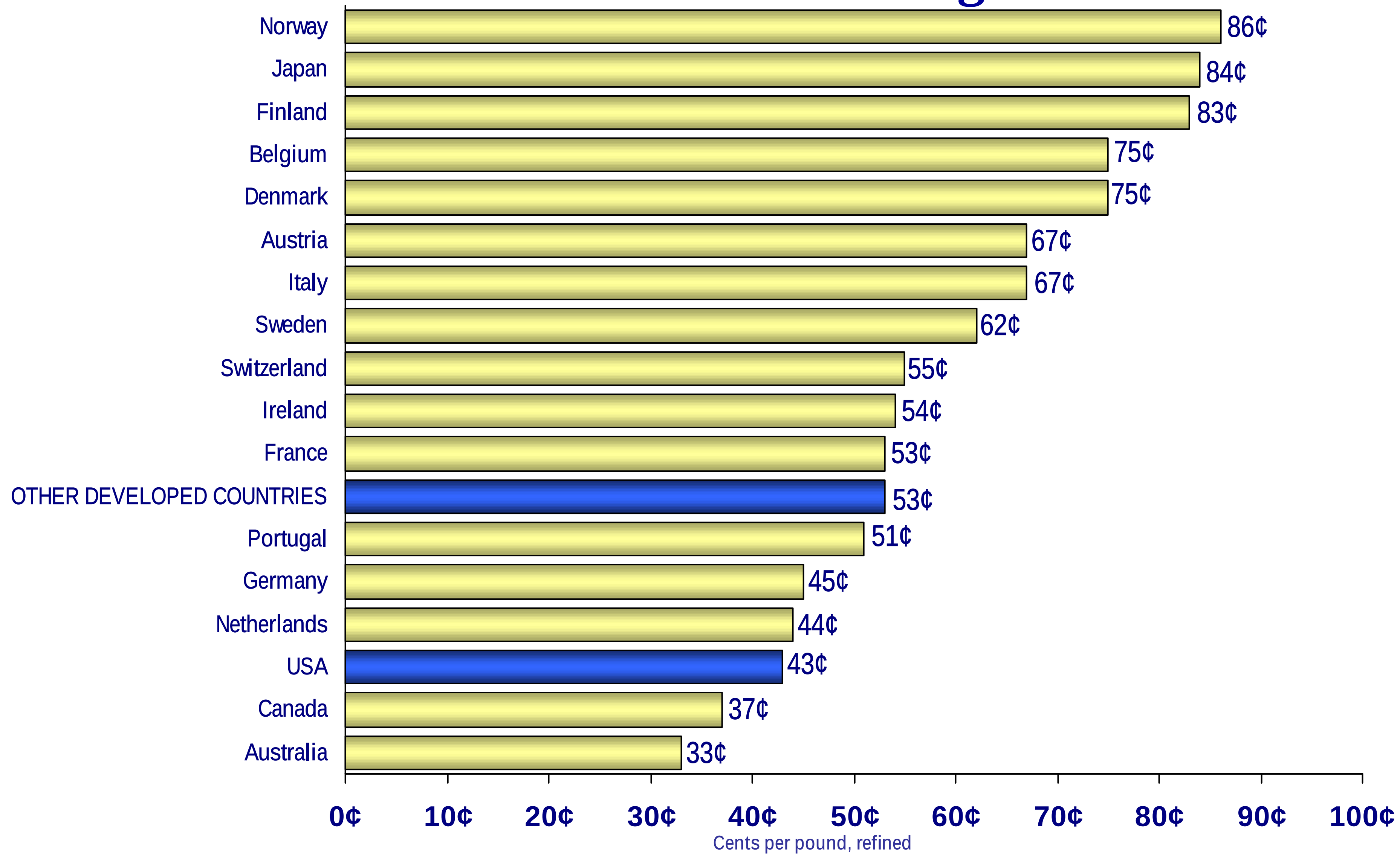
* Change in annual average prices from 1990 to 2001. Raw cane: duty-fee paid, New York. Wholesale refined beet sugar: Midwest markets. Retail prices: Bureau of Labor Statistics consumer price indices. Data source: USDA.

From 1996 to 2001:
Producer Prices for Sugar Plummet,
Consumer Prices for Sugar and Sweetened Products Rise



Annual average prices, 1996 compared with 2001. Raw cane: Duty-fee paid, New York. Wholesale refined beet: Midwest markets.
Retail prices: BLS indices. Data source: USDA.

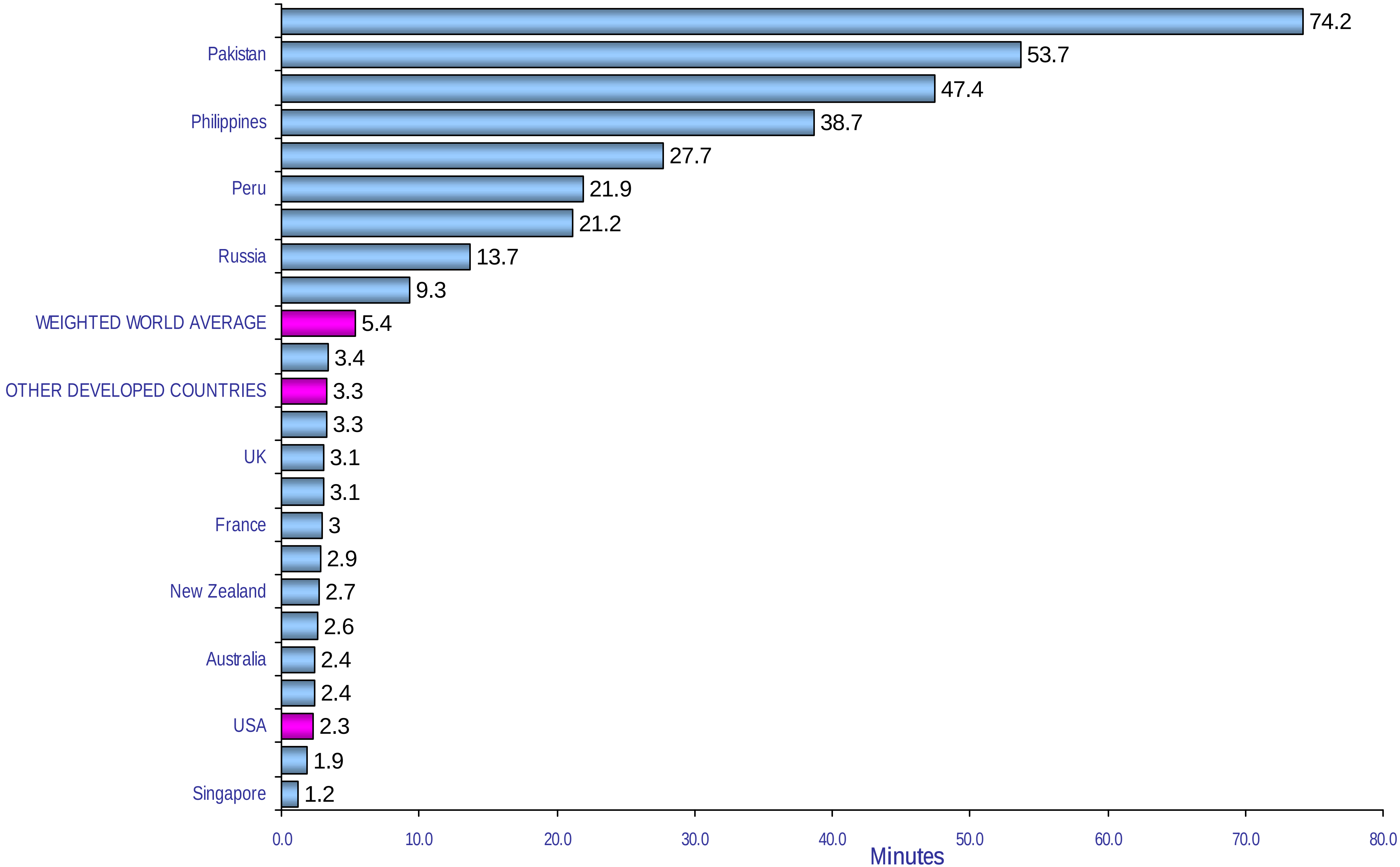
Developed Countries' Retail Sugar Prices: USA 20% Below Average



Source: LMC International Ltd., Oxford, England, February 2000; 1999 prices.

"Other Developed Countries" represents the weighted average of 22 foreign developed countries.

Minutes of Work Required to Buy One Pound of Sugar: USA Third Lowest in World



Source: LMC International Ltd., Oxford, England, February 2000. Study of 49 countries, accounting for 78% of global sugar consumption; 1999 prices.
Based on 1997 World Bank per capita GNP data. *OTHER DEVELOPED COUNTRIES" represents the weighted average of 20 foreign developed countries.

The Effects of U.S. Sugar Policy: Users
(Food Manufacturers and Retailers)

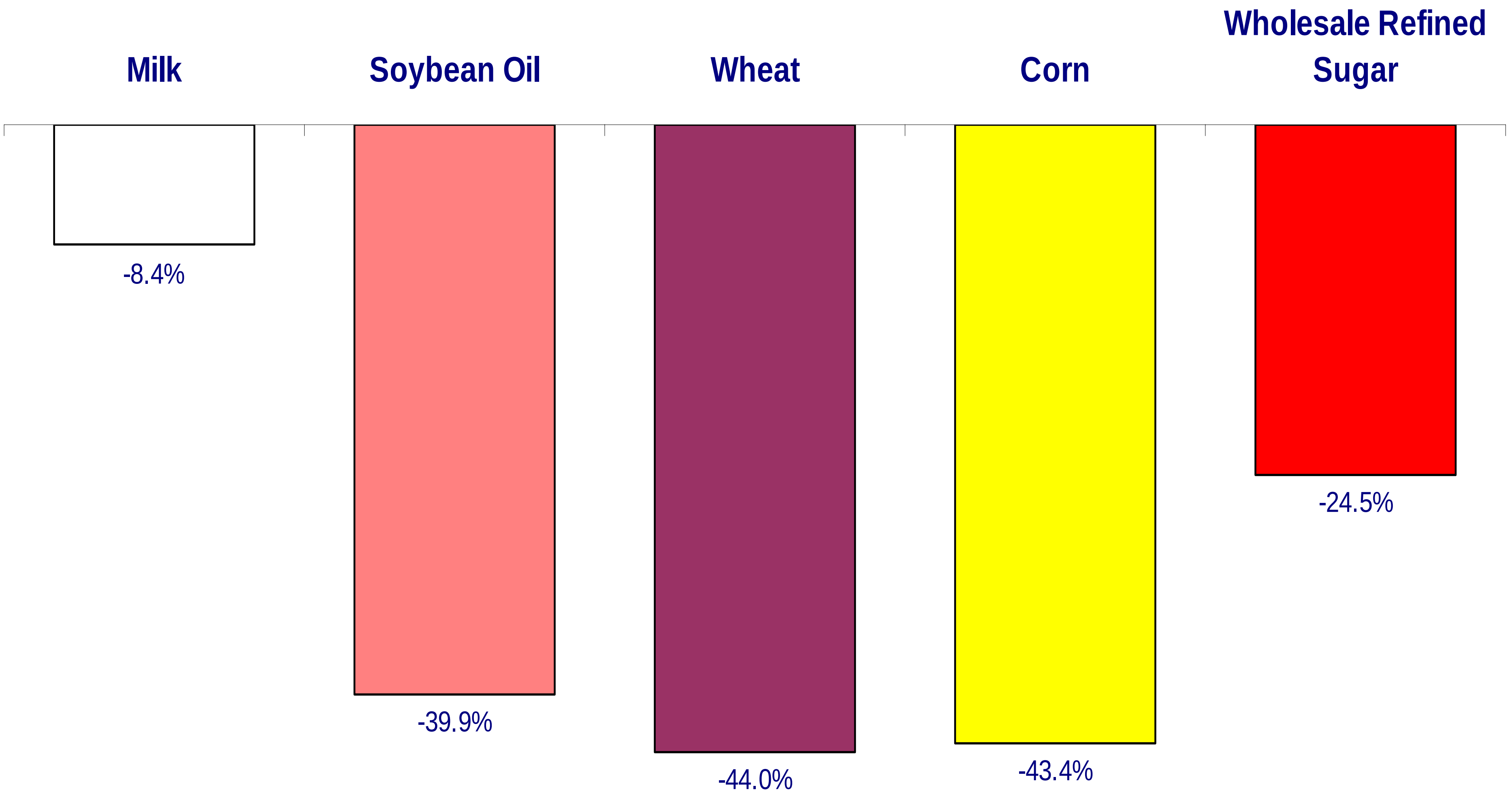
- Dynamic, modern, competitive domestic sugar producing industry means sugar supplies for Users are:
  - High quality
  - Highly differentiated: 40+ specifications
  - Dependable
  - Delivered “just-in-time” – producers bear storage cost, not Users
  - Low priced – declining nominal price over past 10 years; real price down sharply

The Effects of U.S. Sugar Policy: Users

Other Sweetened-Product Ingredients

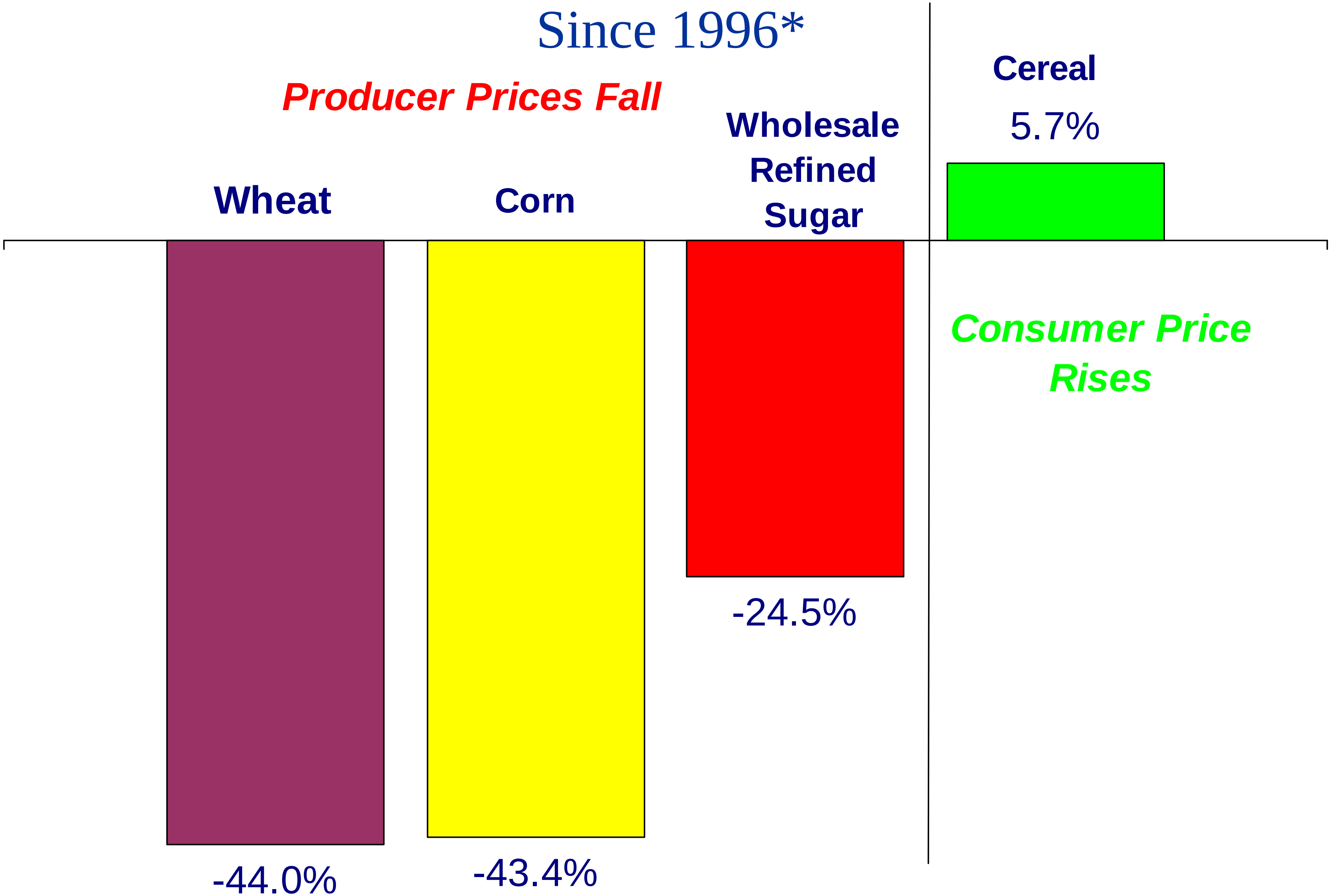
- Extraordinary commodity price declines in recent years – historic lows in real terms
- Stark evidence of lack of passthrough of lower raw ingredient prices to consumers
  - Consistent among sweetened-product ingredients and final retail prices

Sweetened-Product Ingredient Prices Changes Since 1996*



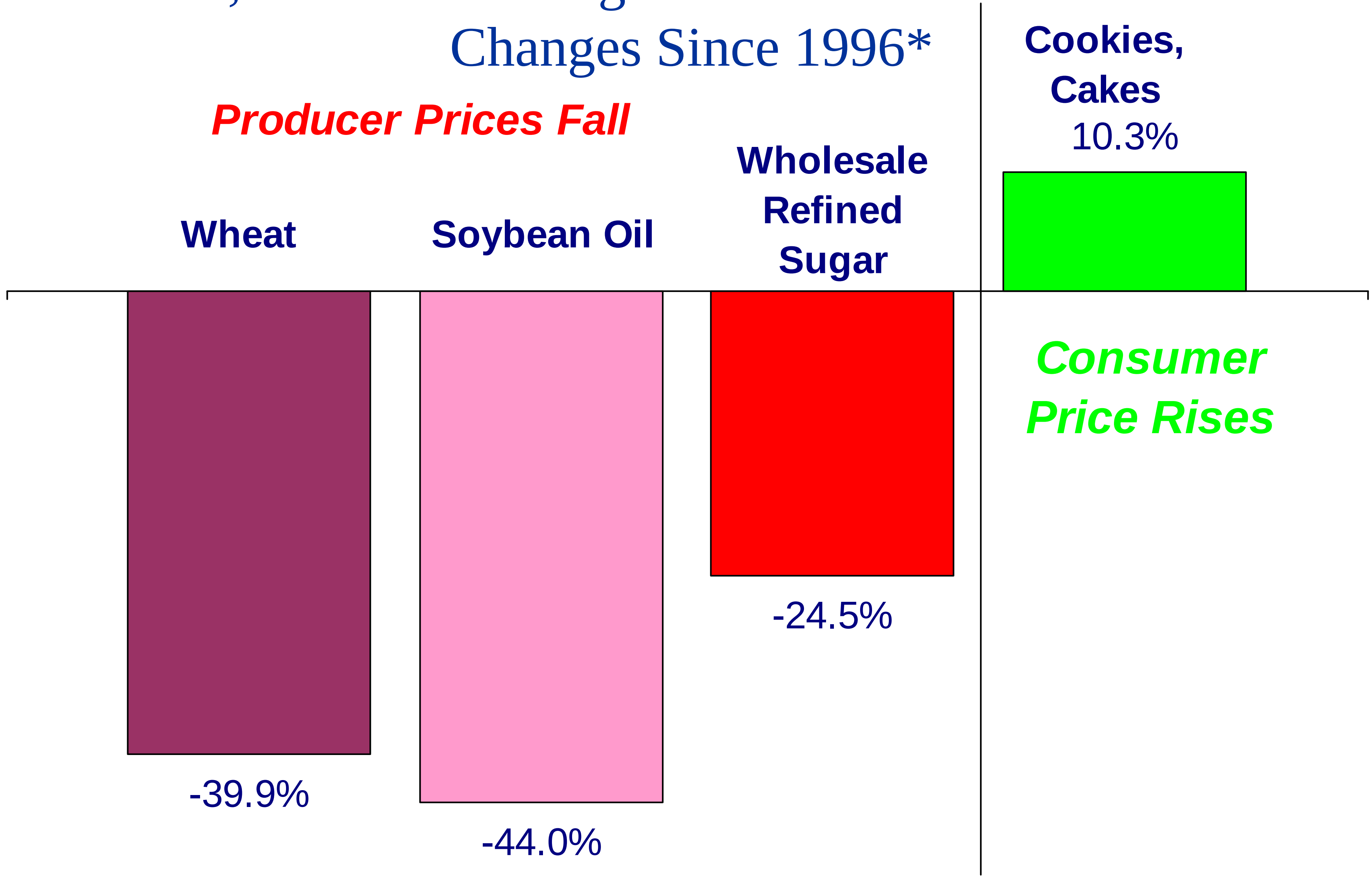
*Data source: USDA; 2000-2001 average compared with 1996 annual average.

Cereal: Raw Ingredient and Retail Product Price Changes Since 1996*



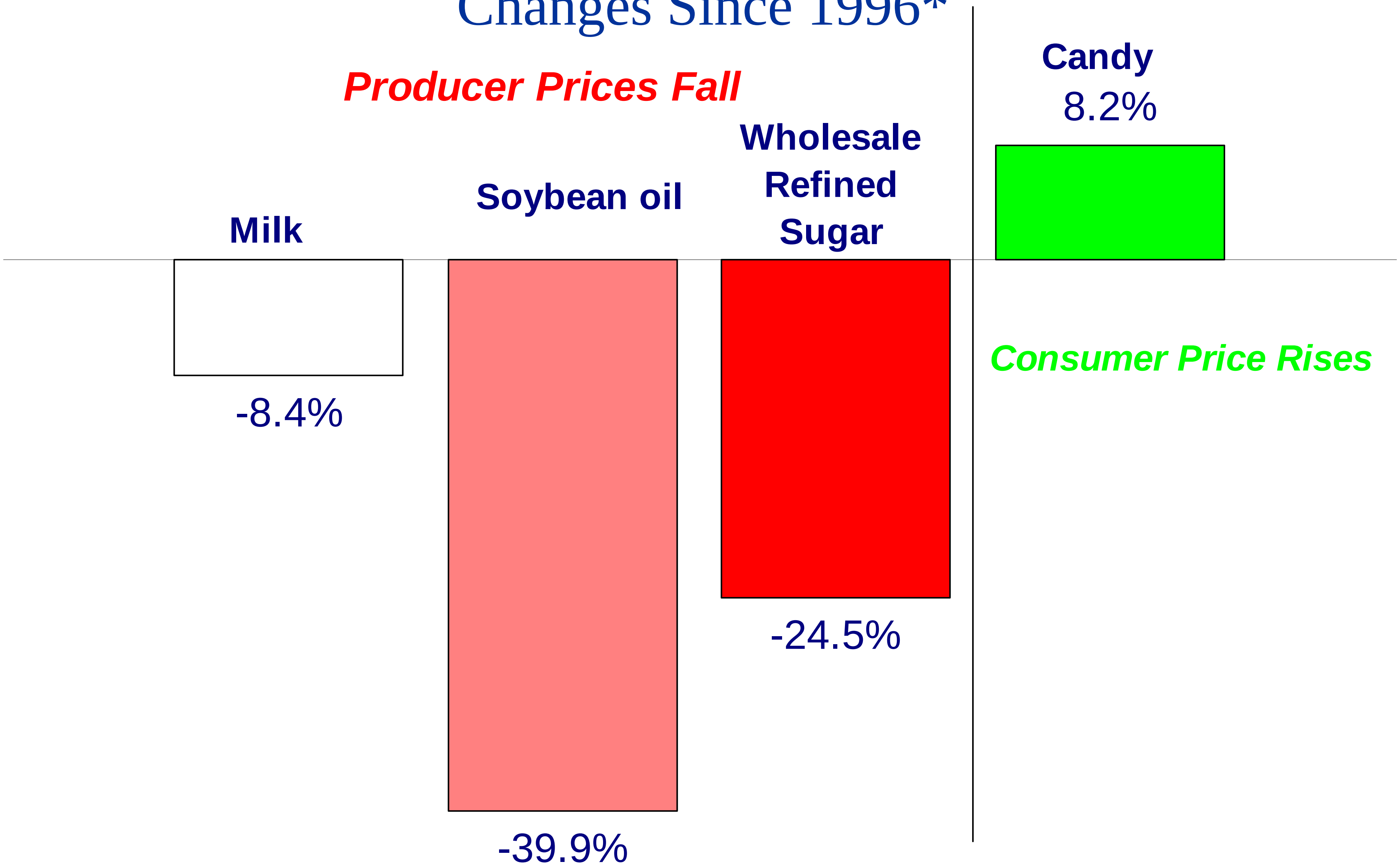
*Data source: USDA; 2000-2001 average compared with 1996 annual average.

Cookies, Cakes: Raw Ingredient and Retail Product Price Changes Since 1996*



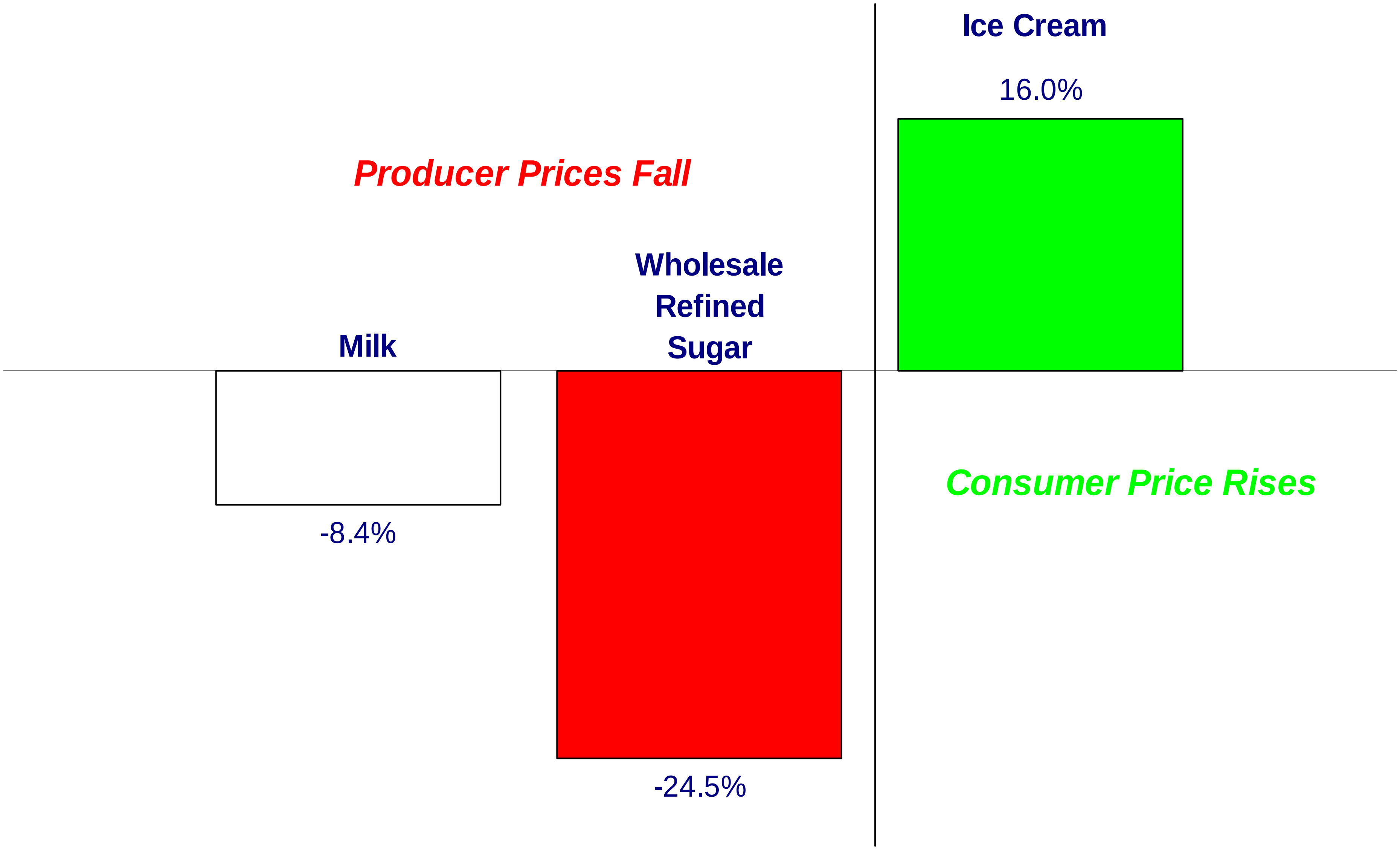
*Data source: USDA; 2000-2001 average compared with 1996 annual average.

Candy: Raw Ingredient and Retail Product Price Changes Since 1996*



*Data source: USDA; 2000-2001 average compared with 1996 annual average; "candy" includes chocolate.

Ice Cream: Raw Ingredient and Retail Product Price Changes Since 1996*



*Data source: USDA; 2000-2001 average compared with 1996 annual average.

The Effects of U.S. Sugar Policy: Users

- How could passthrough not occur?
  - Concentration: The five leading grocery chains share of the U.S. market (Professor Neil Harl, Iowa State University, 2001):
    - 1992: 19%
    - 2000: 42%
    - 2003: 60%
  - Modest price changes have little effect on consumption:
    - Per capita consumption at or near capacity
    - Sugar prices a non-issue for American consumers

The Effects of U.S. Sugar Policy: Users

- Given that:
  - Passthrough of lower sugar prices is far less than 100%, sometimes less than zero;
  - Ingredient costs are a minor component of final sweetened-products prices
- Users should not:
  - Cite studies (GAO) built on assumption of immediate, 100% passthrough;
  - Claim that sugar prices force U.S. candy companies to relocate

The Effects of U.S. Sugar Policy: Users

Candy companies relocation to other countries: It's <u>not</u> the sugar.

- Mexico: Mexican wholesale refined sugar prices <u>higher</u> than U.S.
  - Chicago vs. Juarez:
    - Chicago wages 25x higher (excluding benefits)
    - Chicago energy costs 5x higher
    - Chicago tax burden 5x higher
- Canada: Non-union wages; exchange rate advantage; government-paid health care; government-subsidized paper, packaging

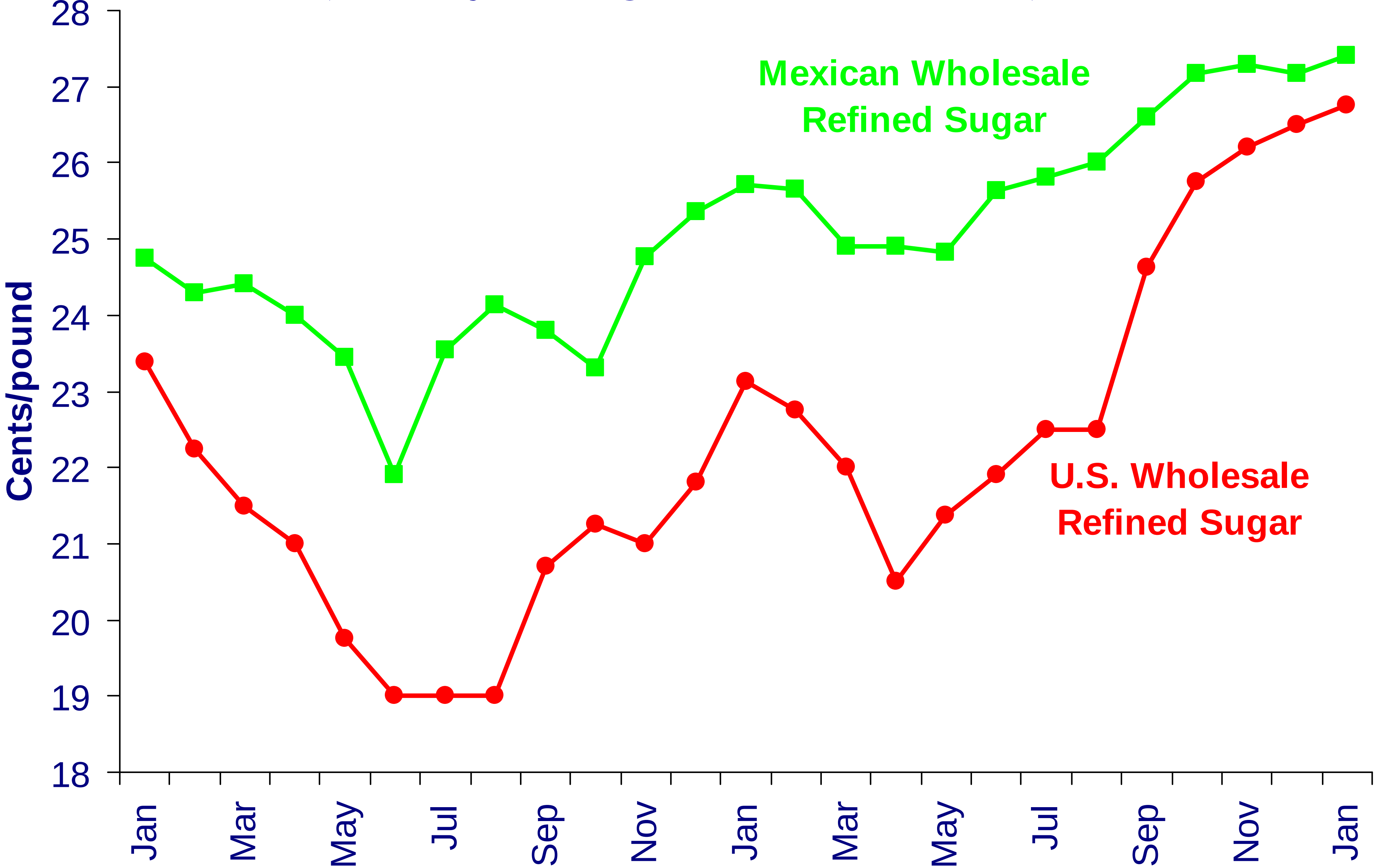
The Effects of U.S. Sugar Policy: Users

Candy companies relocation to other countries: It's <u>not</u> the sugar.

- Sugar cost in 60-cent pack of hard candy: One cent
- The other 59-cents drives decisions on where candy firms locate
- Too embarrassed to acknowledge real reason: To abandon U.S. workers – U.S. labor benefits, safety, and environmental standards
- Scapegoat: American sugar farmers

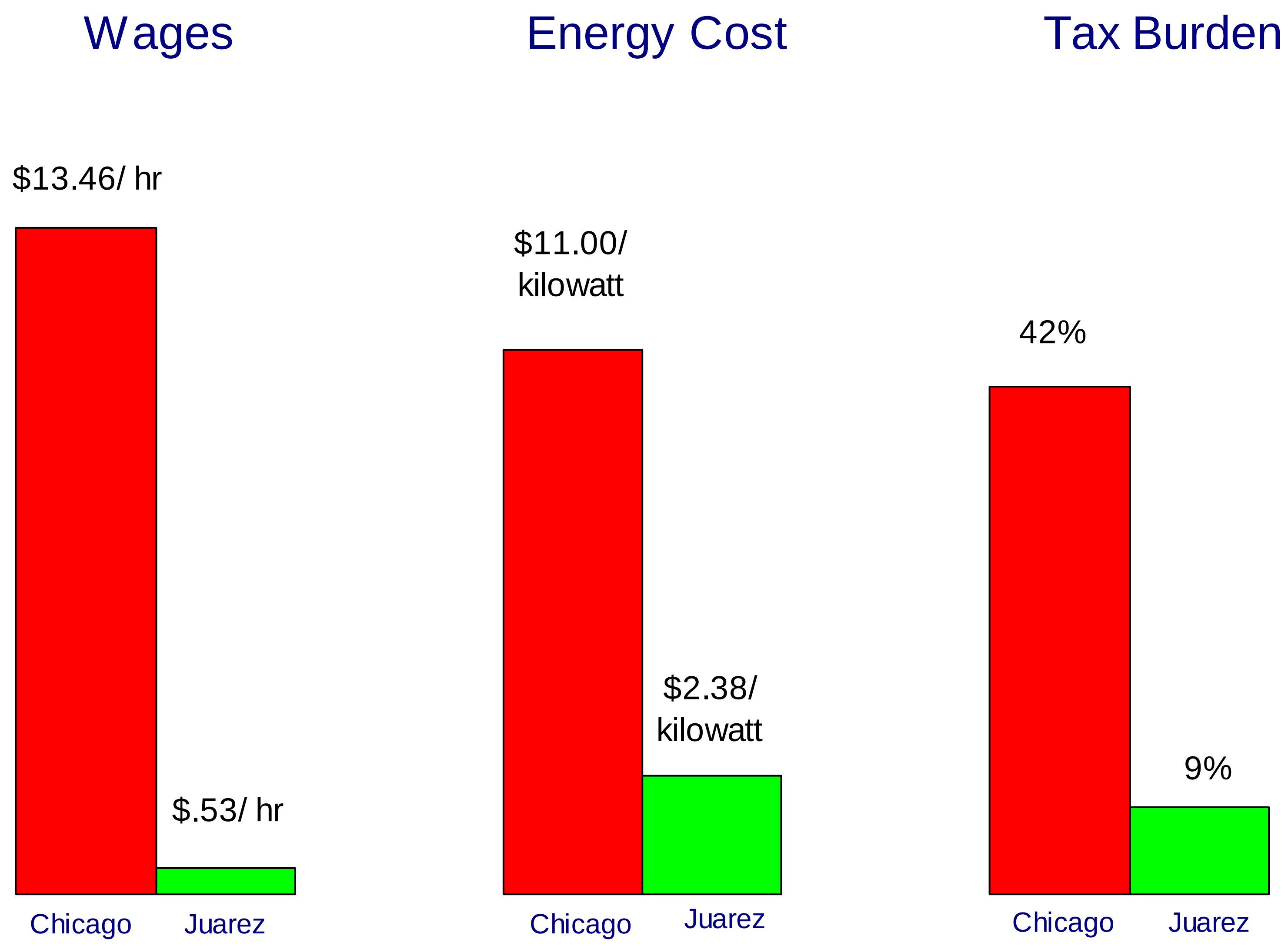
Mexico Wholesale Refined Sugar Prices Higher Than U.S.

(Monthly Average Prices, 2000-2002)



Data Source: U.S. Department of Agriculture; Camara Nacional de las Industrias Azucarera y Alcoholera, Mexico.

Relative Costs for Candy Makers in USA, Mexico:
Wages, Energy, Taxes Much Higher in Chicago than Juarez



Source: *"U.S. Confectionary Companies: The Move to Mexico -- Encouraged by What Cost Variables?"* Peter Buzzanell & Assoc., Inc., August 2001. Wages *exclude* benefits; federal and state tax burden *excludes* Chicago "head tax" -- $50/worker/month for companies over 50 employees; also, energy demand lower in Juarez because of warmer climate.

Industry Problems Entering 2002 Farm Bill

- 1996 Farm Bill: Eliminated marketing allotments, ability of USDA to run no-cost program
- 1997-1998: Other crop prices fall; government income-support payments to other farmers rise; sugar prices remain flat
- Acreage shift from wheat, corn, soybeans to sugarbeets; from soybeans, cotton, rice to sugarcane
  - Other crop growers still receive decoupled AMTA and supplemental AMTA, marketing loan, other payments;
  - No marketing allotments constraint on sugar production

Industry Problems Entering 2002 Farm Bill

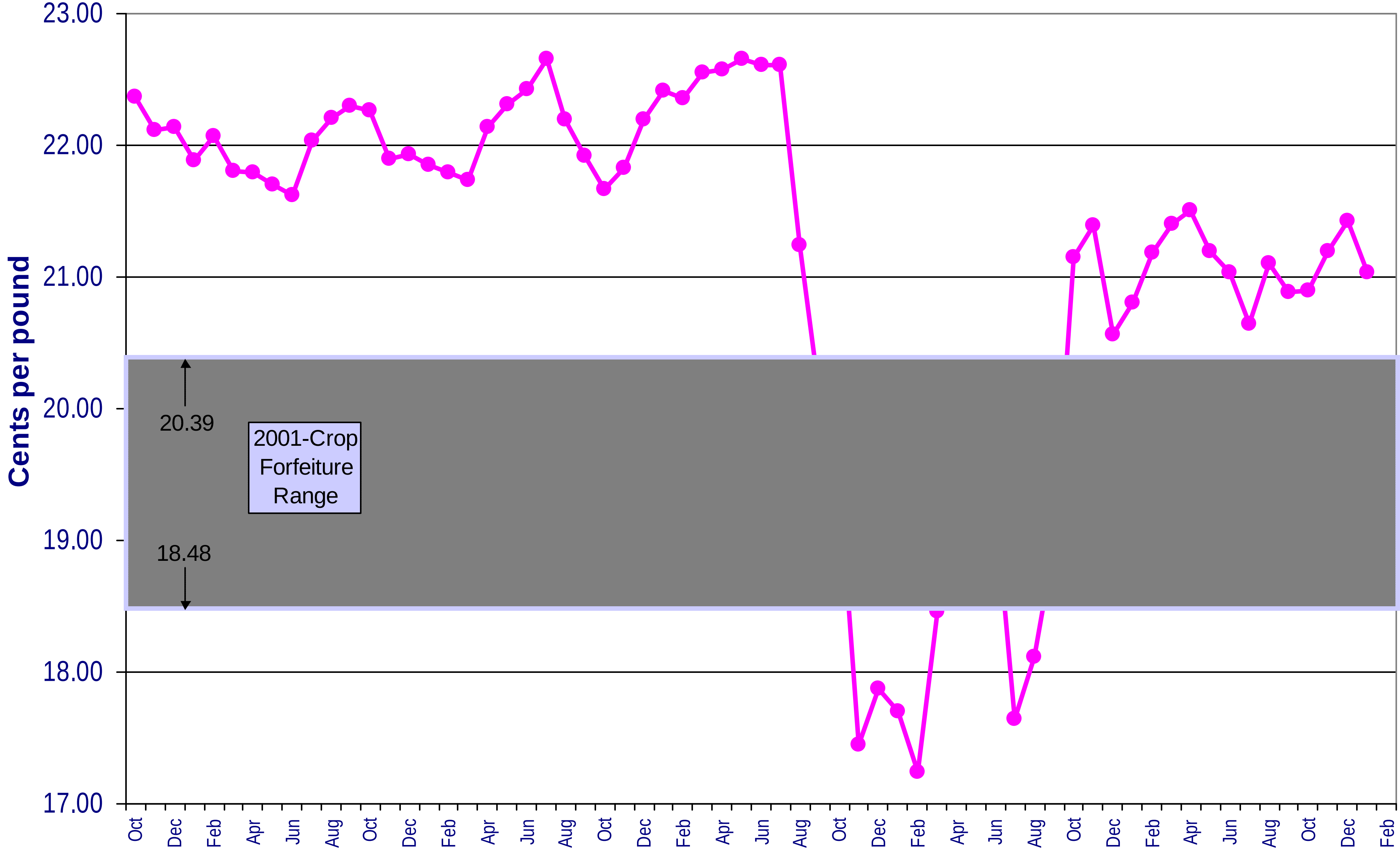
1997-98:

- Unusually high sugar yields: Improved technology to maximize beet and cane yield per acre and sugar recovery from beets and cane; unusually good weather
- Increased sugar production
- Required imports (WTO & NAFTA) exceed U.S. needs
- Uncertainty regarding uncontrolled imports of stuffed molasses from Canada, second-tier sugar from Mexico

Industry Problems Entering 2002 Farm Bill

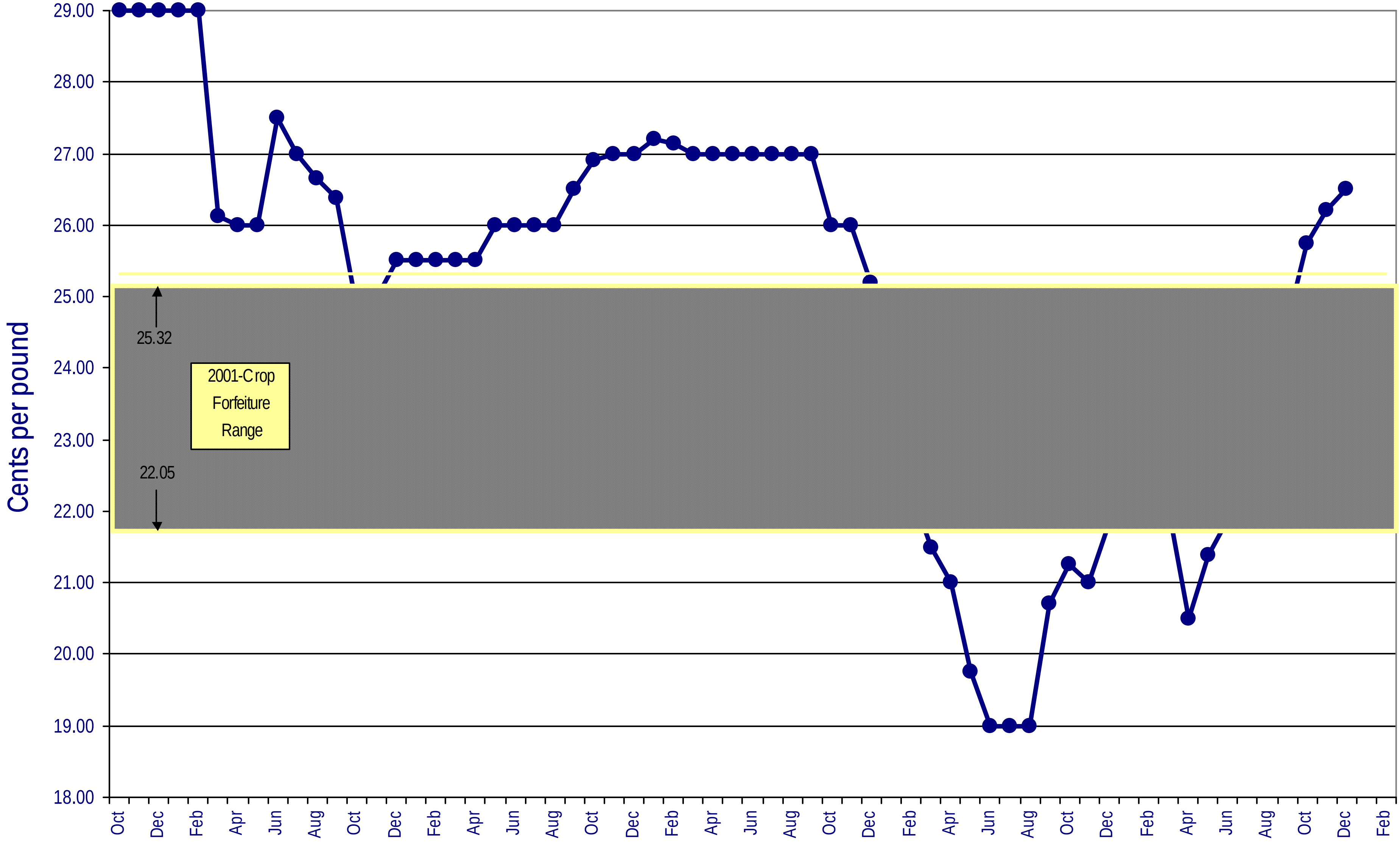
- 1999-2000 Low Prices: Historically low raw cane and refined beet sugar prices – at, or near, 22-year lows
  - No government income-support payments to sugar farmers
  - First significant loan forfeitures since 1984
    - Cost being offset by sales back onto market, at a profit
  - Large import commitments (WTO & NAFTA)
  - Non-quota import uncertainties (TRQ circumvention; Mexico)

U.S. Raw Cane Sugar Prices
Since Start of 1996 Farm Bill



Source: USDA. Raw cane sugar, nearby #14 contract, delivered New York. Monthly average prices October 1996 - January 2002.

U.S. Wholesale Refined Beet Sugar Prices Since Start of 1996 Farm Bill



Source: USDA. Wholesale refined beet sugar, Midwest markets. Monthly average prices October 1996 - January 2002.

24 Permanent Sugar Mill Closures Since 1993

BEET CLOSURES

Delta Sugar
California, 1993

Holly Sugar, Betteravia
California, 1993

Spreckels Sugar, Manteca
California, 1996

Holly Sugar, Hamilton City
California, 1996

Western Sugar, Mitchell
Nebraska, 1996

Great Lakes Sugar, Fremont
Ohio, 1996

Holly Sugar, Hereford
Texas, 1998

Holly Sugar, Tracy
Califonia, 2000

Holly Sugar, Woodland
Califonia, 2000

CANE CLOSURES

Columbia Sugar
Louisiana, 1994

Hamakua Sugar
Hawaii, 1994

Hilo Coast Processing Co.
Hawaii, 1994

Oahu Sugar
Hawaii, 1994

Ka'u Agribusiness
Hawaii, 1996

Waialua Sugar
Hawaii, 1996

McBryde Sugar
Hawaii, 1996

Breaux Bridge Sugar
Louisiana, 1998

Pioneer Mill Company
Hawaii, 1999

Talisman Sugar Company
Florida, 1999

Amfac Sugar, Kekaha
Hawaii, 2000

Amfac Sugar, Lihue
Hawaii, 2000

Hawaiian Commercial & Sugar, Paia
Hawaii, 2000

Evan Hall Sugar Cooperative
Louisiana, 2001

Caldwell Sugars Cooperative
Louisiana, 2001

* In 2002, 28 beet and 25 cane mills remain.

Industry Aims Entering 2002 Farm Bill

- Protect sugar producer income: From government or from marketplace?
  - *Decision: Marketplace*
- Restore prices:
  - Restore government ability to restrain domestic marketings
  - Regain control of borders: Breaux Amendment; Mexico negotiations
- Resume no-cost operation

Elements of 2002 Farm Bill

1. **Loan Program**. Non-recourse loan program reauthorized at 18 cents per pound for raw cane sugar and 22.90 cents per pound for refined beet sugar (essentially the same level since 1985).
   - Loan rates may be reduced, at the Secretary of Agriculture's discretion, if foreign producers reduce their export subsidies and support levels below their current WTO commitments.
   - In-process beet and cane syrups can be put under loan.
   - Sugar placed under loan in September can be forfeited at the end of that month.
   - The 100-point surcharge in CCC interest rates for sugar loans is eliminated.

Elements of 2002 Farm Bill

2. **Inventory Management**. Provides authority to the Secretary to impose domestic marketing allotments in order to balance the markets, avoid forfeitures, and comply with our substantial import commitments under the WTO and the NAFTA.
   - The cost of storing excess production is shifted from the government to the industry. When allotments are in place, processors who have expanded marketings (sugar sales to cane refiners, grocers, food manufacturers or other commercial users) in excess of the rate of growth in domestic sugar demand will have to postpone sale of some sugar, and either store it at their own expense or sell it for other than domestic food use.

Elements of 2002 Farm Bill

2. **Inventory Management**

- No acreage or production controls on sugarbeet or sugarcane farmers.
- No limits on how much beet or cane processors can process.
- Effectively contingent on the resolution of import-quota circumvention and second-tier Mexican sugar import problems.
- Automatically trigger off when imports exceed 1.532 million short tons (the total of U.S. minimum-import obligations: 1.256 mst, WTO; .276 mst, Mexico).
- Additional authority for the Secretary to reduce CCC sugar stocks and the potential for future sugar loan forfeitures by accepting bids for CCC sugar in return for reducing future production.

Elements of 2002 Farm Bill

3. **No-Cost**. The Secretary is directed to operate the policy, to the maximum extent practicable, at no cost to the U.S. Treasury by avoiding sugar loan forfeitures.
4. **Marketing Assessments**. Eliminated. This special tax on sugar producers, costing producers about $40 million per year, was suspended in fiscal years 2000 and 2001, but is scheduled to resume in fiscal 2002 and 2003.
5. **Forfeiture Penalty.** Eliminated in Senate bill, *not* in House. In the 1996 Farm Bill, sugar became the only commodity program to require producers to make a special payment to the government – one cent per pound – for each pound of sugar forfeited to the government.

The Effects of U.S. Sugar Policy: Producers

Elements of 2002 Farm Bill

6. **Sugar Storage Facility Loan Program**. Will extend to sugar processors the type of storage facility loan program available to grain and other crop farmers, and will facilitate orderly marketing of sugar.
7. **Reporting Requirements.** Expanded reporting requirements will better enable the Secretary to track importation of high-sugar content products created for the purpose of circumventing the U.S. sugar import quota.

Import-Quota Circumvention

- **Stuffed Molasses**: Solved by U.S. Court of Appeals ruling, August 2001
  - Still subject to appeal

- **Mimic Products** – Created for the purpose of extracting sugar and evading the U.S. sugar import quota: Solved by Breaux Amendment to the Trade Adjustment Assistance Act, passed by Senate Finance Committee, December 2001
  - Possible Senate action this spring, probably as part of Trade Promotion Authority bill.

The Effects of U.S. Sugar Policy: Producers

Import-Quota Circumvention: Breaux Amendment to TAA (S. 1209)

- Requires the Secretary of Agriculture to identify imports of articles that are circumventing tariff-rate quotas on sugars, syrups, or sugar-containing products and report to the President the articles found to be circumventing the tariff-rate quotas.
- Requires the President to proclaim that any article identified by the Secretary shall be included in the appropriate tariff-rate quota provision of the Harmonized Tariff Schedule.
- Imports of sugar-related products for legitimate commercial applications in the United States, such as molasses used for animal feed or for rum, would *not* be affected by this legislation.

The Effects of U.S. Sugar Policy: Producers

Import-Quota Circumvention: Breaux Amendment

- Does not affect:
  - Finished products
  - Products with any commercial use in the form in which they are imported.
- Does affect:
  - Any product with no commercial use in the form in which it is imported, and from which sugar is extracted. That's circumvention. Very carefully written to affect nothing else.

The Effects of U.S. Sugar Policy: Producers

Import-Quota Circumvention: Breaux Amendment

- Consistent with trade rules:
  - Carefully crafted to avoid any violation of WTO, NAFTA rules, avoid any danger of retaliation.
- Efficient authority for Secretary of Agriculture to prevent abuse of trade rules, and administer sugar-import TRQ at no cost to taxpayers.

The Effects of U.S. Sugar Policy: Producers

NAFTA Sugar, Corn, & Corn Sweetener Provisions

Sugar (Mexican access to U.S. market):

- **First-tier:** Up to 276,000 tons/year of surplus production during years 2001-2007, duty free; whether needed by U.S., or not
- **Second-tier:** Tariff declines to zero in 2008; unlimited quantities can enter
- **Surplus-producer definition:** Mexican sugar production minus the sum of Mexican sugar and corn sweetener consumption

Corn: Mexican duty on U.S. corn imports to zero in 2008

Corn sweeteners: Mexican duty on U.S. HFCS set initially at 15% declines to zero in 2003

Common Market in 2008.

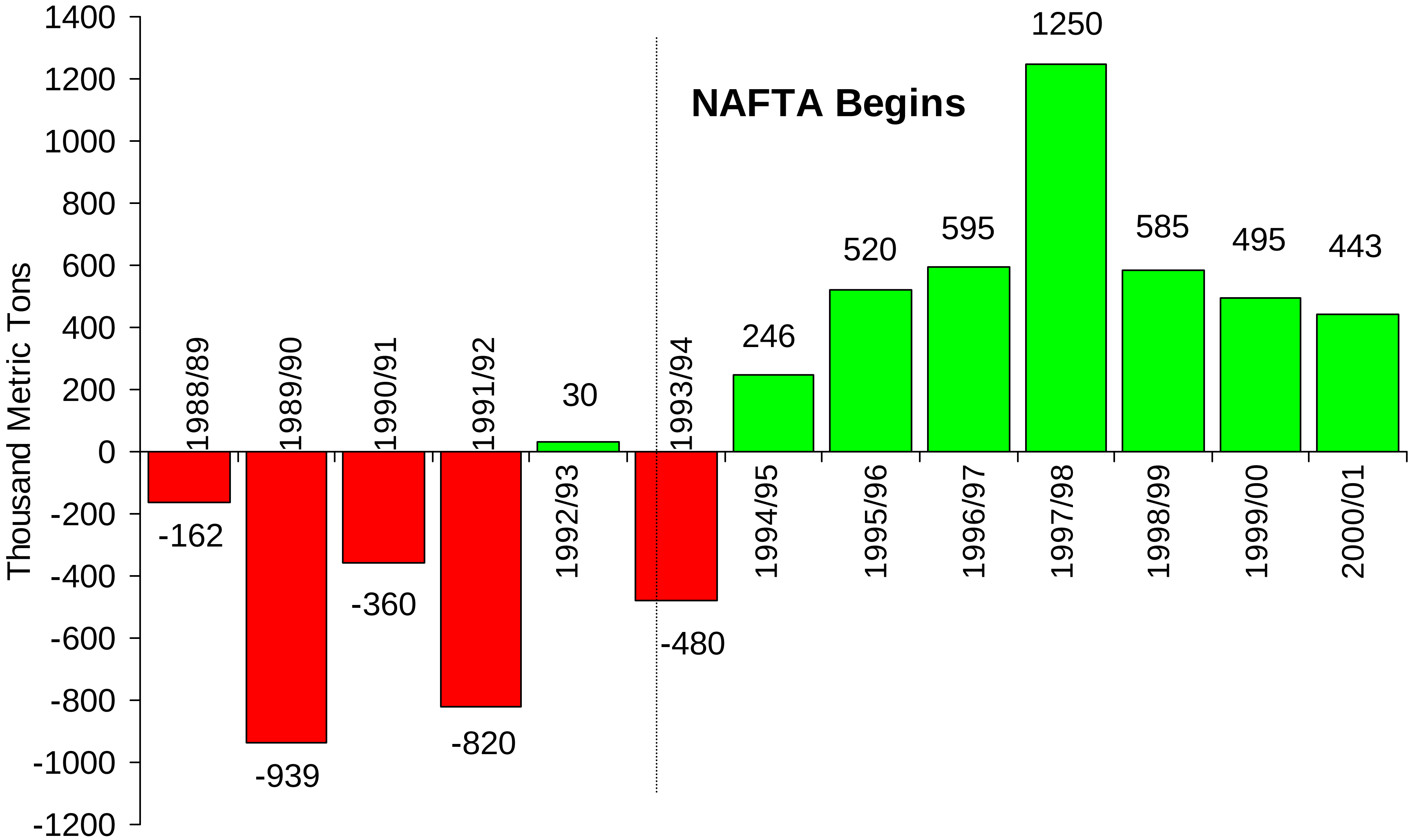
The Effects of U.S. Sugar Policy: Producers

Mexico: Industry Developments Since NAFTA Began

- Mexican sugar production increases by 1.2 million metric tons, or 33% (1989-94 avg. vs. 1995-00 avg.)
  - Debt forgiveness, other Mexican government sugar subsidies total about $2 billion during 1995-2001
- Mexican HFCS consumption rises to ~500,000 tons, more than half of it domestically produced; Reported government-condoned agreement among Mexican bottlers to slow HFCS use
- Mexico transformed from pre-NAFTA 455,0000-ton **deficit** sugar producer to post-NAFTA 615,000-to **surplus** producer (1989-94 avg. vs. 1995-00 avg.); imports of U.S. HFCS average only 158,000 tons/year
- Industry in severe economic distress; Many sugar mills on brink of bankruptcy; Worker strikes

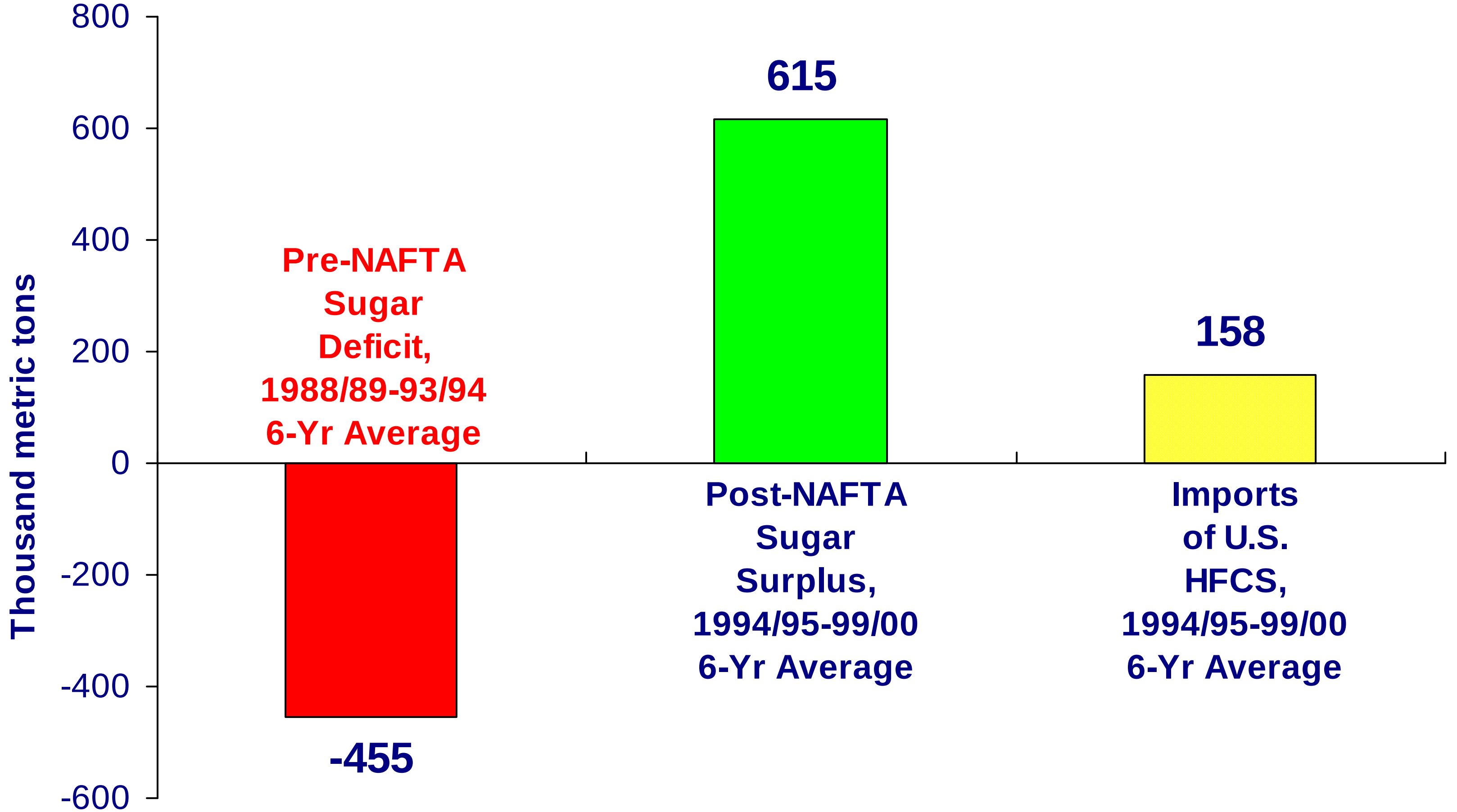
Mexico Sugar Deficit/Surplus

1988/89 – 2000/01



Source: USDA - Sugar Production Minus Consumption

Mexican Sugar Surplus: HFCS Imports from U.S. Just a Fraction of Problem



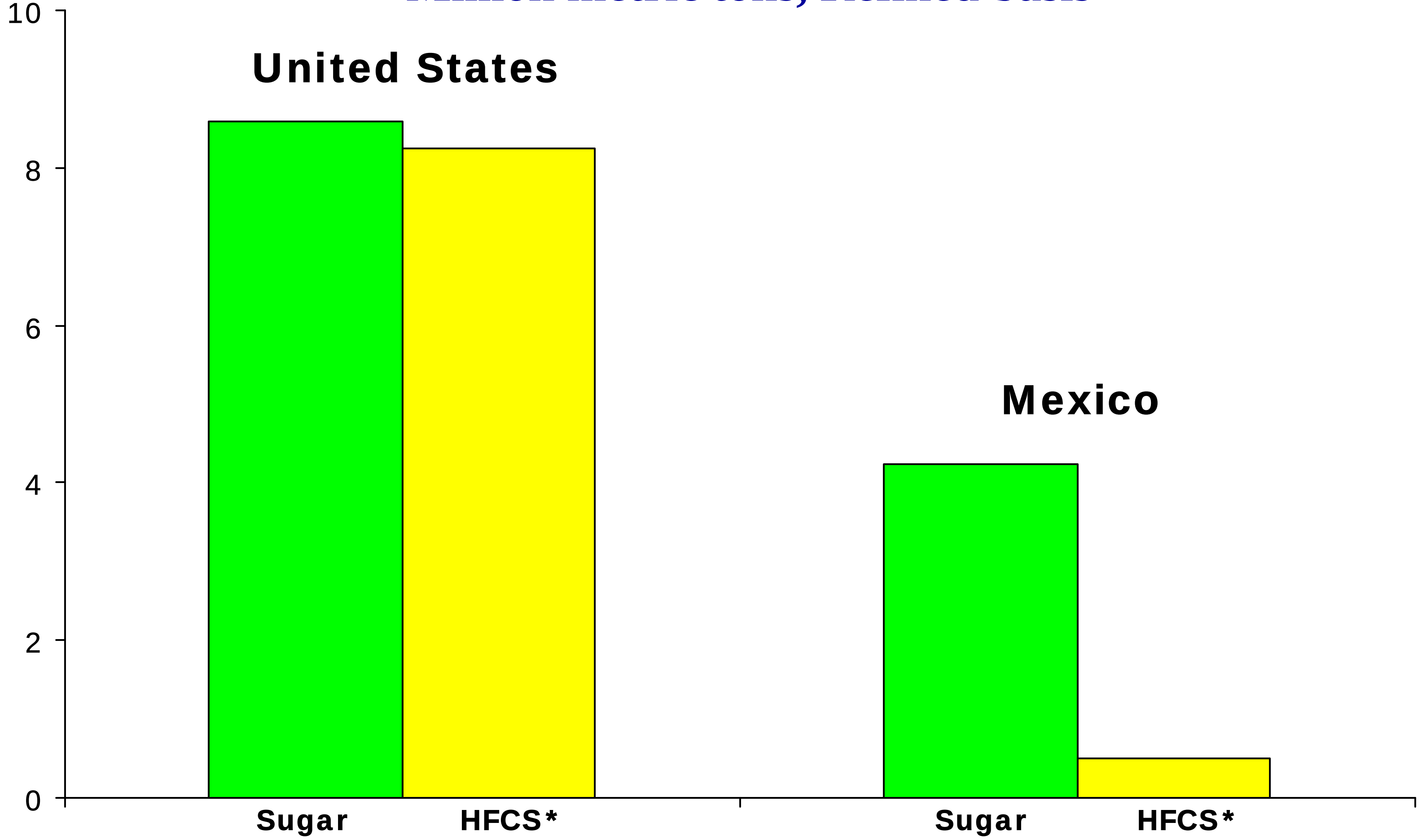
Data Sources: USDA; industry estimates

Mexico: Policy Developments Since NAFTA Began

- Mexican government imposes high (~100%) duties on U.S. HFCS imports, June 1997
  - Duties remain in place despite adverse WTO and NAFTA rulings during 2000 and 2001
- Mexican government requests dispute panel on validity of NAFTA sugar side letter, March 1998
- Mexican government expropriates 27 most financially troubled of Mexico's 60 mills, rather than allowing them to fail, September 2001
- Mexican Congress imposes 20% tax on soft drinks made with HFCS, January 2002; HFCS import license requirement, February 2002

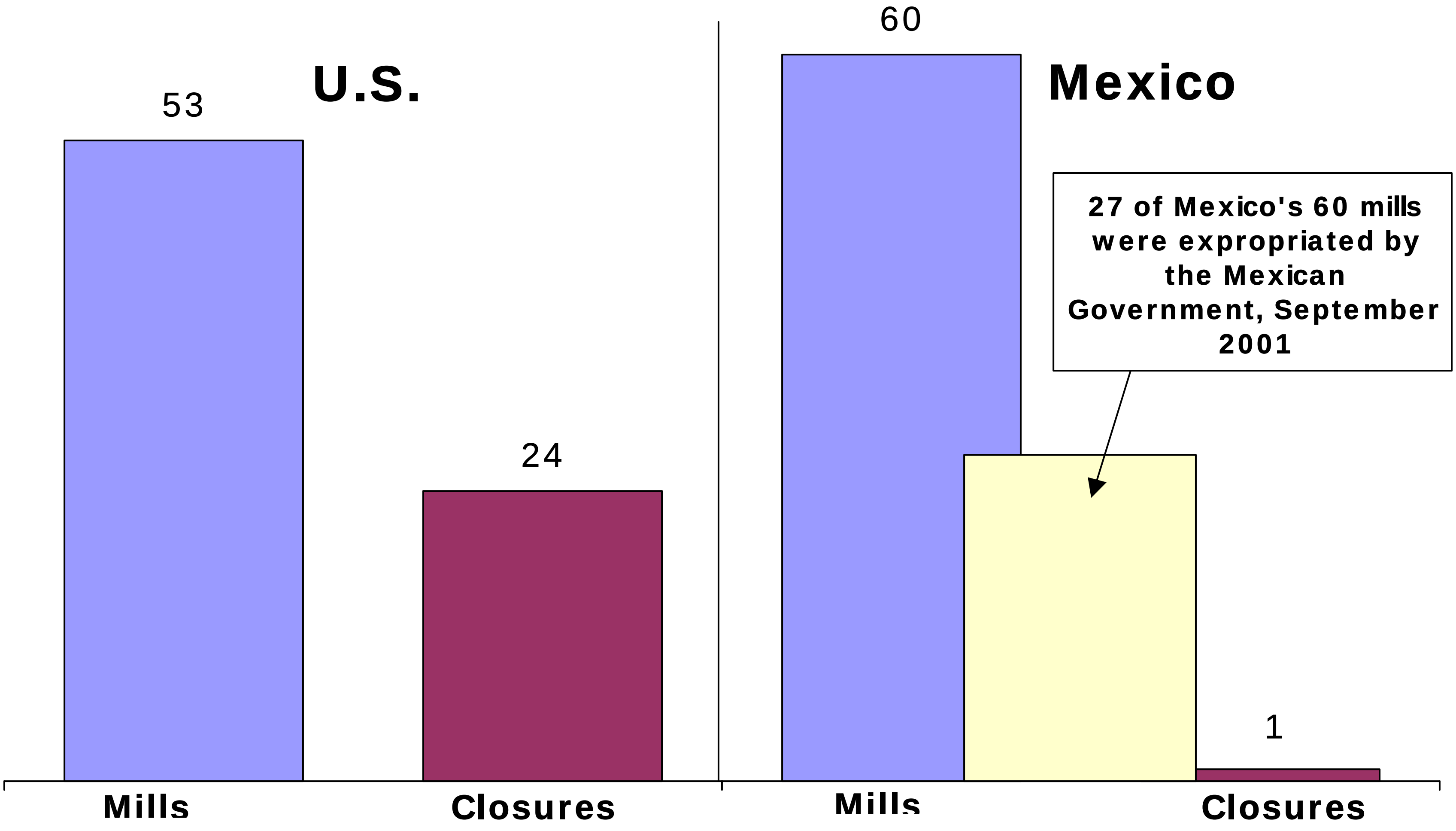
U.S. and Mexican Sugar and Corn Sweetener Consumption, 2001

-Million metric tons, Refined basis-



*HFCS: High-fructose corn syrup
Data source: USDA

U.S. and Mexican Sugar Mills and Closures Since 1993



Source: Industry Estimates

Contrasting the U.S. and Mexican Sugar Industries

Both under severe financial stress from lengthy period of market prices below production costs

United States:

- Open competition with HFCS: 50% of U.S. caloric sweetener market
- Casualties: 24 beet or cane mills have closed since 1993; no direct government support

Mexico:

- Government prevents competition with HFCS: only 10% of Mexican caloric sweetener market and could go lower
- Government does not allow sugar mills to go out of business: $2 billion in subsidies and only one closure since 1993; expropriates 27 of 60 mills in 2001

Status of U.S.-Mexico Discussions

- U.S. sugar industry remains committed to the development of a comprehensive permanent agreement that restores balance and stability to the U.S. and Mexican sweetener markets; Mexican soda tax stands in way of negotiation
- Meanwhile, U.S. sugar industry preparing anti-dumping and countervailing duty cases against Mexican sugar should a surge in imports occur
- Mexican government has cited sucrose ethanol as a potential key to Mexico's problems. Simultaneously address:
  - Sugar surplus;
  - Potential job loss from closure of troubled mills;
  - Air pollution problems;
  - Water pollution problems, from MTBE use

Conclusion

- A large, dynamic, competitive industry that should be allowed to continue to operate until we have global free trade in sugar
- No cost to taxpayers
- High-quality, low-priced supplies to consumers, food companies
- Challenges for surviving sugar producers:
  - Cope with declining prices, nominal and real
  - Accommodate large required imports
  - Limit opportunities for cost savings through expansion
  - Solve import-quota circumvention, Mexico access problems